

# **AUDIT GUIDE FOR RECIPIENTS AND AUDITORS**

## **FOREWORD**

Under the Legal Services Corporation (LSC) Act, LSC provides financial support to organizations that furnish legal assistance to eligible clients. Section 1009(c) of the LSC Act requires that LSC either conduct or require each recipient of LSC funds to provide for an annual financial statement audit. In 1995, LSC promulgated an Audit Guide to replace the audit portions of both the 1981 and the 1986 LSC Audit and Accounting Guide for Recipients and Auditors. The 1995 Guide required that recipient audits be conducted in accordance with Office of Management and Budget (OMB) Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions.

In 1996, pursuant to 110 Stat. 1321 (1996) (Public Law 104-134), Congress:

1. mandated that routine on-site monitoring of grantee compliance be accomplished through annual audits conducted by independent public accountants (IPAs or auditors);
2. provided that such audits be conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States under the guidance established by the OIG;
3. declared that audits conducted pursuant to the provisions of Section 509 shall be in lieu of the financial audits otherwise required by Section 1009(c) of the LSC Act;
4. increased the restrictions and prohibitions on the types of activities in which recipients may engage; and
5. established special requirements for interim reporting by recipients on noncompliance with laws and regulations identified by their IPAs during the course of the audits, thereby placing special emphasis on recipients' compliance with laws and regulations.

This legislation contains substantial and fundamental changes in the law governing grants to LSC recipients. It incorporates restrictions in the legal work in which LSC recipients may participate, and changes the way compliance with these restrictions will be monitored. The IPA's special attention is directed to Appendix A, the Compliance Supplement, in planning the audit. The Compliance Supplement identifies by asterisk (\*) practice restrictions that are considered material to the LSC program. Because of the increased reliance on IPAs for assessing recipients' compliance with these restrictions, the OIG is planning a heightened quality assurance review program. The overall objective of the quality assurance review program is to ensure the quality of the auditor's work, and it will focus on, among other things, the auditor's testing of compliance with laws and regulations and related internal controls.

Pursuant to the audit requirements of 110 Stat. 1321 (1996), LSC is promulgating this revised Audit Guide. Seven appendices have been attached to this Audit Guide for use by recipients and auditors, as follows:

- |            |  |
|------------|--|
| Appendix A | The Compliance Supplement provides notice to both recipients and their auditors of the specific LSC regulations which are to be tested for compliance. The Compliance Supplement will change as LSC rules, regulations and guidelines are adopted, amended or revoked, but it establishes no new rules, regulations or guidelines itself.    |
| Appendix B | A Sample Audit Agreement contains mandatory and suggested provisions which recipients should consider incorporating into their audit agreements.   |
| Appendix C | A Guide for Procurement of Audit Services prepared by the LSC Office of Inspector General (OIG) in the spring of 1994 and revised in 1995 and 1996. This Guide is intended to assist recipients in planning and procuring audit services.  |
| Appendix D | A Summary Report Form on Noncompliance with Laws and Regulations, Questioned Costs and Reportable Conditions, along with instructions. This form provides a summary of the audit findings contained in the audit reports and financial data concerning the LSC support, fund balance and expenditures on Private Attorney Involvement (PAI). |
| Appendix E | The Recipient 5-day Letter to the OIG of the IPA's "Special Report on Noncompliance with Laws and Regulations" ("Recipient 5-day Letter"). This is the recipient's transmittal letter to the OIG accompanying the auditor's report.  |
| Appendix F | The Auditor 5-Day Letter to the OIG of the IPA's "Special Report on Noncompliance with Laws and Regulations" not Reported by Recipient ("Auditor 5-Day Letter"). This is the auditor's transmittal letter to the OIG accompanying the auditor's report.  |
| Appendix G | The Auditor Notification on Cessation of Services. This a form letter notifying the OIG that there has been a change in audit firms.   |

# TABLE OF CONTENTS

<b>I.</b>	<b>INTRODUCTION</b>	<b>1</b>
I-1	Purpose.	1
I-2	Required Standards and Guidance.	1
I-3	Applicability	2
I-4	Authority.	2
I-5	Effective Date.	2
I-6	Communicating with the OIG Regarding Audit Matters.	2
I-7	Revisions to the Guide	2
I-8	Cumulative Status of Revisions	3
I-9	Responsibilities of Recipients	3
I-9.A.	Maintain Adequate Internal Controls	3
I-9.B.	Provide Audited Financial Statements	4
I-9.C.	Requirements for Recipient 5-Day “Special Report” to the OIG on Noncompliance with Laws and Regulations	4
I-9.D.	Corrective Action Plans	5
<b>II.</b>	<b>AUDIT PERFORMANCE REQUIREMENTS</b>	<b>6</b>
II-1	Audit Requirements.	6
II-1.A.	Objectives	6
II-1.B.	Reports	6
II-1.C.	Qualifications of the IPA	6
II-1.D.	Auditor Access to Records	7
II-1.E.	Audit Working Papers	7
II-1.F.	Access to Audit Working Papers	7
II-1.G.	Disclosure of Irregularities, Illegal Acts and Other Noncompliance	7
II-1.H.	Requirements for Auditor 5-Day “Special Report” to the OIG on Noncompliance with Laws and Regulations	8
II-1.I.	IPA Notification to OIG on Cessation of Audit Services	9
II-2	Review of Internal Controls	9
II-3	Assessing Compliance with Laws and Regulations	9
II-4	Audit Follow-up	9
<b>III.</b>	<b>AUDIT REPORTING REQUIREMENTS</b>	<b>10</b>
III-1	Audit Reports and Distribution	10
III-2	Extension Requests for Audit Submissions	10
III-3	Views of Responsible Officials	10

**IV. REFERENCE MATERIALS ..... 10**

**APPENDIX A:** Compliance Supplement

**APPENDIX B:** Sample Audit Agreement

**APPENDIX C:** Guide for Procurement of Audit Services by Legal Services Corporation Grantees

**APPENDIX D:** Summary Report Form on Noncompliance with Laws and Regulations, Questioned Costs and Reportable Conditions

**APPENDIX E:** The Recipient 5-day Letter to the OIG of the IPA's "Special Report on Noncompliance with Laws and Regulations" ("Recipient 5-day Letter")

**APPENDIX F:** The Auditor 5-Day Letter to the OIG of the IPA's "Special Report on Noncompliance with Laws and Regulations" not Reported by Recipient ("Auditor 5-Day Letter")

**APPENDIX G:** Auditor Notification on Cessation of Services

**Federal Register**/Vol. 61, No. 205/Tuesday, October 22, 1996/Notices, Legal Services Corporation, Audit Guide for LSC Recipients and Auditors

**AUTHORITIES:** The Legal Services Corporation Act of 1974, as amended, § 1008(a) and (b),(42 USC2996g(a) and (b)); § 1009(c)(1),(42 USC 2996h(c)(1)); and § 1010(c), (42 USC 2996i(c)); The Inspector General Act of 1978, as amended, 5 USC App. 3, § 4(a)(1); and § 4(b)(1); 110 Stat. 1321 §§ 501-509 (1996).

# **I. INTRODUCTION**

The Office of Inspector General (OIG) of the Legal Services Corporation (LSC) is responsible for establishing and interpreting LSC audit policy pursuant to the Inspector General Act of 1978, as amended, and the LSC Board of Directors' resolution of May 13, 1995. In 1996, pursuant to the requirements of Section 509 of 110 Stat. 1321 (1996), Congress: 1) mandated that routine on-site monitoring of grantee compliance be accomplished through annual audits conducted by IPAs; 2) increased the restrictions and prohibitions on the types of activities in which recipients may engage; 3) increased the OIG responsibility for oversight; and 4) declared that the audits conducted pursuant to Section 509 of 110 Stat. 1321 (1996) were in lieu of the financial audits otherwise required by the LSC Act § 1009(c). This Guide incorporates those requirements. The OIG will examine the audits to identify reported instances of noncompliance with laws and regulations, questioned costs and control deficiencies, and will refer the findings and recommendations to management for action.

## **I-1. PURPOSE**

The Audit Guide provides a uniform approach for audits of LSC recipients and describes recipients' responsibilities with respect to the audit. The Audit Guide is to be used in conjunction with the Compliance Supplement (Appendix A). The Audit Guide and the Compliance Supplement provide the auditor flexibility in planning and performing the audit, encourage professional judgement in determining the audit steps necessary to accomplish audit objectives, and do not supplant the auditor's judgment. Auditors should be aware that all practice restrictions identified in the Compliance Supplement by asterisk (\*) are considered material to the program, and the failure of a recipient to comply with the requirements may affect the recipient's eligibility for funding.

## **I-2. REQUIRED STANDARDS AND GUIDANCE**

Audits of recipients, contractors, persons or entities receiving financial assistance from LSC (all hereinafter referred to as "recipients") are to be performed in accordance with Government Auditing Standards (GAS or GAGAS) issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Organizations; and this Audit Guide.

For purposes of OMB Circular A-133, the LSC Compliance Supplement is to be followed for LSC funds and includes the restrictions and prohibitions on the use of non-LSC funds. Accordingly, the OMB Compliance Supplement for Audits of Institutions of Higher Education and Other Nonprofit Institutions (OMB Compliance Supplement) does not apply to LSC funds. If the non-LSC funds (Federal or state) of a recipient are subject to consideration under the OMB Circular A-133 audit, the OMB Compliance Supplement may otherwise apply to those funds.

Each recipient of LSC funds is required to have an audit in accordance with the requirements of this Guide. Such audit shall meet the objectives outlined in Section II-1.A, "Objectives", which

include an assessment of the recipient's compliance with the laws and regulations identified in the Compliance Supplement (Appendix A).

### **I-3. APPLICABILITY**

The requirements of this Audit Guide apply to all recipients and subrecipients of LSC funds, except where specific provisions have been otherwise made through grant or subgrant agreements. This Audit Guide does not apply to grants to law schools, universities or other special grants, which are covered by special provisions of the respective grant agreements. Exceptions to these audit requirements are determined by the OIG in consultation with LSC management.

### **I-4. AUTHORITY**

This Audit Guide has been prepared under the authority provided by the following sections of the LSC Act, the IG Act and 110 Stat. 1321 (1996): LSC Act § 1008(a),(b), 42 U.S.C §2996g(a),(b); LSC Act § 1009(c)(1), 42 U.S.C §2996h(c)(1); and LSC Act § 1010(c), 42 U.S.C §2996i(c). IG Act § 4(a)(1), 4(b)(1), 5 U.S.C APP 3 § 4(a)(1), 4(b)(1). 110 Stat. 1321 (1996) §§ 509(a) to (l).

### **I-5. EFFECTIVE DATE**

This Audit Guide is effective for audits of LSC programs for periods ending on or after December 31, 1996, except as otherwise authorized by the Corporation.

### **I-6. COMMUNICATING WITH THE OIG REGARDING AUDIT MATTERS**

Recent legislation has brought a number of changes in the communication needs of recipients, IPAs, and the OIG. Because of these changes, the OIG is making special efforts to facilitate the additional communications needs. We are currently expanding reporting capabilities through electronic mail on the Internet, as well as providing a World Wide Web page for interactive "Questions and Answers."

In addition, the OIG also has a staff of auditors available to answer questions, or address audit issues by telephone or facsimile. The phone numbers and addresses are:

Telephone - (202)336-8812  
Fax - (202)336-8955

Email - [audits@smtp.lsc.gov](mailto:audits@smtp.lsc.gov)  
Web Site - <http://oig.lsc.gov/>

### **I-7. REVISIONS TO THE GUIDE**

The OIG will periodically revise the Audit Guide and its appendices through bulletins or replacement sections. Revisions may reflect changes to public law, corporate regulations, auditing standards, or other guidelines. Revisions should be incorporated into the recipient's copy of the Audit

Guide, and furnished to the IPA by the recipient. Questions relating to any revisions should be directed to the OIG. Information concerning the Audit Guide and any revisions will be posted periodically and will be available on the LSC OIG World Wide Web page.

## **I-8. CUMULATIVE STATUS OF REVISIONS**

<u>Effective Date</u>	<u>Description</u>
August 1976	Original Edition of "Audit and Accounting Guide for Recipients and Auditors" issued.
June 1977	Revised Original Edition of Audit and Accounting Guide issued.
September 1979	Revision to Pages 4-1 and 6-6.
September 1981	Revision to Pages ii, 4-1, 6-6, VIII-3, and addition of Page 4-2.
January 1, 1986	Revised 1986 Edition of Audit and Accounting Guide Effective.
August 13, 1986	Regulation 1630 Replaces Chapter 4 of both the Original and 1986 Edition of the Audit and Accounting Guide.
December 31, 1995	Chapter 6 of both Original and 1986 Audit and Accounting Guide replaced by Audit Guide.
December 31, 1996	Revision to November 1995 Audit Guide to adopt audit provisions of 110 Stat. 1321 (1996).

## **I-9. RESPONSIBILITIES OF RECIPIENTS**

### **I-9.A. Maintain Adequate Internal Controls**

Recipients, under the direction of their boards of directors, are required to establish and maintain adequate accounting records and internal control procedures. Until revised, guidance relating to these responsibilities may be found in both the 1981 and 1986 editions of LSC's "Audit and Accounting Guide for Recipients and Auditors," referred to above in Section I-8, "Cumulative Status of Revisions."

Internal Control is defined as the process put in place by the recipient's board of directors, management, and other personnel designed to provide reasonable assurance of achieving objectives over:

1. reliability of financial reporting;
2. compliance with laws and regulations that have a direct and material effect on the program; and any other laws so identified in the Compliance Supplement; and
3. safeguarding of assets against unauthorized use or disposition.

### **I-9.B. Provide Audited Financial Statements**

Recipients are responsible for preparing annual financial statements and arranging for audits of those statements to be completed and submitted to the OIG within 120 days of the recipients' fiscal year ends. While the recipients' boards of directors have the final responsibility for the appointment of the auditor, pursuant to Section 509(d) of 110 Stat. 1321 (1996), the OIG has direct authority to "...remove, suspend, or bar an independent public accountant, upon showing of good cause, from performing audit services required by this section...", based upon rules of practice to be promulgated by the OIG.

Pursuant to Section 509(c) of 110 Stat. 1321 (1996), the recipient's failure to provide an acceptable audit in accordance with the guidance promulgated by the OIG may result in the following sanctions: 1) the withholding of a percentage of the recipient's funding until the audit is completed satisfactorily; or 2) the suspension of the recipient's funding until an acceptable audit is completed.

A written agreement between the recipient and the IPA must be executed and, at a minimum, should specifically include all matters described below in Section II-1, Audit Requirements (Subsections A through I). Contracts or engagement letters should also contain an escape clause that would allow, without significant penalty, modification or cancellation made necessary by changes in law.

Appendix B is a sample audit agreement that includes the required matters described in Section II-1, Audit Requirements, and additional provisions which can be used to document the understanding between the recipient and the IPA. Recipients should consider incorporating these additional provisions in their audit agreements.

In procuring audit services, recipients may refer to the Guide for Procurement of Audit Services (Appendix C).

### **I-9.C. Requirements for Recipient 5-Day "Special Report" to the OIG on Noncompliance with Laws and Regulations**

Section 509(b) of 110 Stat. 1321 (1996) states that recipients "shall report in writing any noncompliance found by the auditor during the audit ... within 5 business days to the Office of the Inspector General and shall provide a copy of the report simultaneously to the auditor. If the recipient fails to report the noncompliance, the auditor shall report the noncompliance directly to the Office of the Inspector General within 5 business days of the recipient's failure to report. The auditor shall not be liable in a private action for any finding, conclusion, or statement expressed in a report made pursuant to this section."

In fulfilling this requirement, recipients are required to report to the OIG any instances of noncompliance with respect to the practice restrictions identified in the Compliance Supplement as reported by the auditor in accordance with Section II-1.H, Requirements for Auditor 5-Day "Special



Report” to the OIG on Noncompliance with Laws and Regulations. The recipient must report to the OIG within five (5) business days after receiving the report of noncompliance from the IPA. The recipient's submission to the OIG pursuant to this section is to include a transmittal letter, and a copy of the auditor’s “Special Report on Noncompliance with Laws and Regulations” (see Appendix E for Recipient 5-Day Letter). Reports submitted pursuant to the requirements of this section must be sent to the OIG by facsimile, Email or registered mail. The recipient is also required to simultaneously provide a copy of its report to the OIG to the auditor using the same manner of communication (facsimile, Email or registered mail).

#### **I-9.D. Corrective Action Plans**

Consistent with Section 509(j) of 110 Stat. 1321 (1996), recipient management is responsible for expeditiously resolving all recommendations and audit findings which include: 1) material reportable conditions in internal control; 2) material noncompliance with laws and regulations identified in the LSC Compliance Supplement (Appendix A); and 3) questioned costs, including those of sub-recipients. Recipients are required to develop and submit to the Corporation corrective action plans within 30 days of submission of the audit report to the OIG. The corrective action plan must describe the corrective action taken or planned in response to the audit findings and recommendations identified by the IPA. The corrective action plan must identify: 1) each finding as reported by the IPA; and 2) the action that will be taken and the date by which it will be taken or completed. If the recipient disagrees with the finding or believes corrective action is not required, it shall provide an explanation and specific reason(s) (e.g. regulatory or legal requirements) that corrective action is not required. If practical, and as an option, a recipient may incorporate its corrective action plan in its response to the auditor's findings and recommendations. However, selection of this option shall not preclude submission of the audit reports within the required time frame, nor serve as a basis for an extension request.

Pursuant to the requirements of Section 509(k)(1) of 110 Stat. 1321 (1996), LSC management has the responsibility for follow-up on "...significant reportable conditions, findings and recommendations found by the independent public accountants and [referred] to the Corporation management by the Office of Inspector General to ensure that instances of deficiencies and noncompliance are resolved in a timely manner..." To facilitate the responsibilities of LSC management and the OIG, recipients are required to submit the corrective action plans to the OIG; the corrective actions plans will be forwarded to LSC management by the OIG.

## **II. AUDIT PERFORMANCE REQUIREMENTS**

### **II-1. AUDIT REQUIREMENTS**

#### **II-1.A. Objectives**

The primary audit objectives are to determine whether:

1. the financial statements are presented fairly, in all material respects, in conformity with Generally Accepted Accounting Principles (GAAP), or other Comprehensive Basis of Accounting;
2. the internal control structure provides reasonable assurance that the recipient is managing funds, regardless of source, in compliance with applicable Federal laws and regulations, and controls are in place to ensure compliance with the laws and regulations which could have a material impact on the financial statements; and
3. the recipient has complied with applicable provisions of Federal law, Corporation regulations and grant agreements, regardless of source of funds, which may have a direct and material effect on its financial statement amounts and on the LSC program.

#### **II-1.B. Reports**

The IPA will prepare the audit reports required by GAS and OMB Circular A-133. Recipients should ensure that management letters are included with the report submissions to LSC, as well as the Summary Report Form on Noncompliance with Laws and Regulations, Questioned Costs and Reportable Conditions (See Appendix D for form and content). The IPA has additional responsibility under Section II-1.H, Requirements for Auditor 5-Day “Special Report” to the OIG on Noncompliance with Laws and Regulations, for interim reporting of noncompliance with certain laws and regulations.

#### **II-1.C. Qualifications of the IPA**

The comprehensive nature of auditing performed in accordance with GAS places on the IPA the responsibility for ensuring that: 1) the audit is conducted by personnel who collectively have the necessary skills; 2) independence is maintained; 3) applicable standards are followed in planning and conducting audits and reporting the results; 4) the IPA has an appropriate internal quality control system in place; and 5) the IPA undergoes an external quality control review. IPAs must meet the qualifications stated in GAS.

#### **II-1.D. Auditor Access to Records**

The IPA will be provided access to all records of the recipient the IPA reasonably believes to be necessary to the performance of the audit.

#### **II-1.E. Audit Working Papers**

The audit working papers are to be prepared in accordance with GAS, and are to be retained by the IPA for at least three years from the date of the final audit report.

#### **II-1.F. Access to Audit Working Papers**

The audit working papers are to be available for examination upon request by representatives of LSC and the Comptroller General of the United States. The LSC Act, §1009(d), prohibits access by the Corporation and the Comptroller General to any reports or records subject to the attorney-client privilege. To the extent not protected by the attorney-client privilege, the Corporation, including the OIG, is provided with access by Section 509 (h) of 110 Stat. 1321 (1996) to "...financial records, time records, retainer agreements, client trust fund and eligibility records, and client names ...." The audit working papers are subject to Quality Assurance Review by the LSC OIG.

#### **II-1.G. Disclosure of Irregularities, Illegal Acts and Other Noncompliance**

During an audit, if matters are uncovered relative to actual, potential, or suspected defalcations, or other similar irregularities, the IPA will comply with Statement on Auditing Standards (SAS) Number 53, "The Auditor's Responsibility to Detect and Report Errors and Irregularities," and SAS Number 54, "Illegal Acts by Clients." While the auditor may contract directly with the recipient for audit services, it is emphasized that any items considered by the auditor to justify reporting to the recipient's program director and/or board of directors, should also be included in the auditor's reports or management letter for LSC's consideration. IPAs should be aware that the recipient, by grant assurance, has a responsibility to report to the OIG within specified time periods on matters involving misappropriation, theft, embezzlement of any funds (LSC, non-LSC and client escrow funds) and property, regardless of recovery. IPAs should also follow Government Auditing Standards, Chapter 5, for guidance on direct reporting of irregularities and illegal acts to the OIG. The reporting requirements under this section are separate and distinct from the special reporting requirements discussed at Section II.1.H below.

## **II-1.H. Requirements for Auditor 5-Day “Special Report” to the OIG on Noncompliance with Laws and Regulations**

Section 509(b) of 110 Stat. 1321 (1996):

- 1) recognizes the auditor's responsibility to select and test a representative number of transactions and report any instances of noncompliance with laws and regulations;
- 2) provides that the auditor shall not be liable in a private action for any finding, conclusion, or statement expressed in a special report on noncompliance made pursuant to this section; and
- 3) places additional responsibility on the auditor to report any instances of noncompliance directly to the OIG, in the event the recipient fails to notify the OIG within five (5) business days of receipt of the auditor's interim report on noncompliance.

The IPA is responsible for providing sufficient information to the recipient on the findings of noncompliance to facilitate the recipient meeting its interim reporting responsibilities under Section I-9.C, Requirements for Recipient 5-Day “Special Report” to the OIG on Noncompliance with Laws and Regulations. The laws and regulations requiring special reporting are defined in the Compliance Supplement (Appendix A). When a determination has been made, based on sufficient competent evidential matter, that an instance of noncompliance has occurred, IPAs are to report immediately to the recipient. The IPA's report to the recipient pursuant to this section should not await completion of the audit reports identified below in Section III, Audit Reporting Requirements. The IPA's special report to the recipient shall be in letter format and shall specifically contain, at a minimum, the following: 1) a description of the particular instance(s) of noncompliance discovered during the course of the audit; and 2) the circumstances surrounding the instance(s) of noncompliance.

Within five (5) business days after issuance of the IPA's special report to the recipient, and in accordance with Section I-9.C, Requirements for Recipient 5-Day “Special Report” to the OIG on Noncompliance with Laws and Regulations, the auditor should receive from the recipient a copy of the recipient's 5-day letter to the OIG. If no such copy is received, the IPA shall submit a copy of the report directly to the OIG, within five (5) business days of the recipient's failure to provide the required copy of its report to the OIG. This statutory procedure thus ensures that the OIG will receive a copy of the IPA's special report on noncompliance within ten (10) business days after the recipient's receipt of the report from its auditor (see Appendix F for the Auditor 5-Day Letter to the OIG). The auditor's submission to the OIG under this section must be transmitted by facsimile, Email or registered mail.

### **II-1.I. IPA Notification to OIG on Cessation of Audit Services**

Pursuant to Section 509(e) of 110 Stat. 1321 (1996), the IPA is required to notify the OIG when it ceases to provide audit services to the recipient. The IPA shall notify the OIG within five (5) business days of its termination or cessation of services to the recipient. (See Appendix G for the notification form.)

## **II-2. REVIEW OF INTERNAL CONTROLS**

In accepting LSC funds, recipient management asserts that its accounting system is adequate to comply with LSC requirements. As part of the review of internal controls, the auditor is required to evaluate the effectiveness of the recipient's accounting system and internal controls. The primary objectives of this evaluation are to ensure that resources are safeguarded against waste, loss and misuse, and that resources are used consistent with LSC regulations and grant conditions.

## **II-3. ASSESSING COMPLIANCE WITH LAWS AND REGULATIONS**

The requirements set out in the Compliance Supplement (Appendix A) are those which could have a material impact on the LSC program. Accordingly, examination of these compliance requirements is part of the audit. As stated in Section I-1, "Purpose", Congress increased the restrictions and prohibitions on the types of activities in which recipients may engage. The failure of a recipient to comply with the practice restrictions contained in the Compliance Supplement may affect the recipient's eligibility for LSC funding.

The Compliance Supplement specifies the compliance requirements and provides suggested procedures to be considered in the auditor's assessment of a recipient's compliance with laws and regulations. The suggested procedures can be used to test for compliance with laws and regulations, as well as to evaluate the related controls. Auditors should use professional judgement in deciding which procedures to apply, and the extent to which reviews and tests should be performed. Auditors are required to select and test a representative number of transactions. If the reviews and evaluations are performed as part of the internal control structure review, audit procedures should be modified to avoid duplication. Auditors should also refer to the grant agreements for additional requirements.

In certain cases, noncompliance may result in questioned costs. Auditors are to ensure that sufficient information is obtained to support the amounts questioned. Working papers should adequately document the basis for any questioned costs and the amounts reported.

## **II-4. AUDIT FOLLOW-UP**

Consistent with GAS paragraph 4.10, Audit Follow-up, the auditor is required to follow-up on known material findings and recommendations from previous audits that could affect the financial statement audit and, in this case, the program. The objective is to determine whether timely and appropriate corrective action has been taken. Auditors are required to report the status of

uncorrected material findings and recommendations from prior audits. These requirements are also applicable to findings and recommendations issued in a management letter.

### **III. AUDIT REPORTING REQUIREMENTS**

#### **III-1. AUDIT REPORTS AND DISTRIBUTION**

IPAs should follow the requirements of GAS, OMB Circular A-133, Statement on Auditing Standards (SAS) 74 and Statement of Position (SOP) 92-9 (and any revisions thereto) for guidance on the form and content of reports. The OMB Circular A-133 reports must reference the LSC Audit Guide and its Compliance Supplement. In addition to the reports required under OMB Circular A-133, IPAs are required to submit a Summary Report Form on Noncompliance with Laws and Regulations, Questioned Costs and Reportable Conditions (Appendix D). Three copies of the audit reports and the management letter, where applicable, are to be submitted to the LSC OIG within 120 days of the recipient's year end.

#### **III-2. EXTENSION REQUESTS FOR AUDIT SUBMISSIONS**

Under exceptional circumstances, an extension of the 120-day requirement may be granted. Requests for extensions must be submitted in writing not later than two weeks prior to the report due date, and directed to the Office of Inspector General. Requests not submitted in the required time frame will be granted only for unforeseen, extraordinary and compelling reasons.

#### **III-3. VIEWS OF RESPONSIBLE OFFICIALS**

Consistent with GAS paragraph 7.38, Views of Responsible Officials, auditors are encouraged to report the views of the responsible program officials concerning the auditors' findings, conclusions, and recommendations, as well as planned corrective action, where practical.

### **IV. REFERENCE MATERIALS**

- A. Title X - Legal Services Corporation Act of 1974, 42 USC 2996, to 2996.1.
- B. 45 Code of Federal Regulations Part 1600 to 1642.
- C. Government Auditing Standards, issued by the Comptroller General of the United States, 1994 Revision.
- D. OMB Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions.
- E. AICPA Professional Standards, Volume I.
- F. AICPA Integrated Practice System, Not-For-Profit Organizations Audit Manual.
- G. Practitioners Publishing Company Guide to Audits of Nonprofit Organizations, Seventh Edition (June 1994).
- H. AICPA Audit and Accounting Guide for Not-for-Profit Organizations, June 1, 1996.

- I. AICPA Statement of Position (SOP) 92-9, Audits of Not-for-Profit Organizations Receiving Federal Awards, December 28, 1992.
- J. Pursuant to LSC Regulations, 45 C.F.R. 1630.4(g):
  - The Circulars of the Office of Management and Budget shall provide guidance for all allowable cost questions arising under this part when relevant policies or criteria therein are not inconsistent with the provisions of the Act, applicable appropriations acts, this part, the Audit and Accounting Guide for Recipients and Auditors, and Corporation rules, regulations, guidelines, and instructions.

Among the OMB Circulars which should be referred to if not inconsistent with LSC policies are:

Office of Management and Budget (OMB) Circular A-50, Audit Follow-up.

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations.

OMB Circular A-122, Cost Principles for Nonprofit Organizations.

OMB Circular A-123, Internal Control Systems.

OMB Circular A-127, Financial Management Systems.